

Press Release

Falcon Garden Tools Private Limited

September 11, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 11.46 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE BB**) to the Rs. 11.46 crore bank facilities of Falcon Garden Tools Private Limited. The outlook is '**Stable**'.

Incorporated in 1993, FGTPPL is a Punjab-based company promoted by Mr. Surinder Pal Singh, Mr. Gurdip Singh, Mr. Sarbjit Singh and Mr. Balbir Singh Dua. The company is engaged in manufacturing of Agricultural, Horticultural, Gardening and Forestry equipment and tools like lawn movers, blowers, rakes, cutters, among others. The company has its manufacturing unit located in (Ludhiana) Punjab.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of FGTPPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Experienced Management and Established Track Record of Operations**

FGTPPL was incorporated in 1993 and has its presence in engineering industry for more than two decades. Mr. Surinder Pal Singh has a vast experience of 40 years in engineering industry. The Directors, Mr. Gurdip Singh, Mr. Sarbjit Singh and Mr. Balbir Singh Dua also possess experience of more than three decades in this industry.

Acuité believes that the company will benefit from its experienced management which helps the company maintain long standing relations with its customers and suppliers.

- **Stagnant Revenues with Healthy Profitability Margins**

FGTPPL shows stagnation in revenue growth. The company reported revenue of Rs.18.74 crore in FY2018 (Provisional) as against Rs.16.97 crore in FY2017 and Rs.15.30 crore in FY2016. The company has booked revenue of Rs.11.00 crore for April to August, 2018 and expects the revenue to be ~Rs.30.00 crore for FY2019. Further, the operating margins are healthy at 11.82 percent in FY2018 (Provisional) as against 10.56 percent in FY2017 and 10.10 percent in FY2016. In line with the operating margins, PAT margins are healthy at 4.48 percent in FY2018 (Provisional) against 3.74 percent in FY2017 and 2.95 percent in FY2016.

- **Moderate Working Capital Operations**

The operations are moderately working capital intensive as evident from Gross Current Asset (GCA) of 142 days in FY2018 (Provisional) as compared to 124 days in FY2017. The GCA days are mainly dominated by high inventory holding of 65 days in FY2018 (Provisional) compared to 61 days in FY2017 and the collection period stood at 19 days in FY2018 (Provisional) compared to 32 day in FY2017. However, the average cash credit utilisation for the past six months stood at ~40 percent.

Acuité believes that FGTPPL will continue to manage its working capital cycle in order to maintain a stable credit profile.

Weaknesses

- **Debt Funded CapitalExpenditure**

The total project cost of FGTP is Rs.8.00 crore which is financed through a term loan of Rs.8.00crore. The capital expenditure is in nature for purchase of new plant and machinery which will help increase its production. The production is expected to start in January 2019. However, the project is exposed to time and costs overrun risk.

Acuité believes that the company's ability to generate cash accruals over the medium term would be a key sensitivity factor.

- **Moderate Financial Risk Profile**

The financial risk profile is moderate marked by tangible net worth of Rs.6.46 crore as on 31 March, 2018 (Provisional) as against Rs.5.63 crore in the previous year. The networth includes unsecured loans of Rs.2.00 crore as on 31 March, 2018 (Provisional) from promoters which are treated as quasi equity based on the undertaking provided by the management that the same will be maintained in the business over the long term. The gearing stood low at 0.38 times on 31 March, 2018 (Provisional) as against 0.42 times in the previous year. The total debt of Rs.2.46 crore includes term loan from bank of Rs.0.41 crore, working capital borrowings of Rs.0.97 crore and unsecured loan of Rs.1.09 crore. Interest Coverage Ratio (ICR) stood at 4.57 times for FY2018 (Provisional) as against 4.51 times in FY2017. The total outside liabilities to tangible networth (TOL/TNW) stood at 0.94 times as on 31 March, 2018 (Provisional) as against 0.95 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.57 times in FY2018 compared to 0.50 times in FY2017.

Going forward, Acuité believes that the company's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

Outlook: Stable

Acuité believes that FGTP's outlook will remain 'Stable' and the company will benefit over the medium term from its experienced management and moderate working capital cycle coupled with healthy profitability margins. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while maintaining its financial risk profile. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or higher than envisaged debt funded capex or working capital requirements deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	18.74	16.97	15.30
EBITDA	Rs. Cr.	2.21	1.79	1.54
PAT	Rs. Cr.	0.84	0.64	0.45
EBITDA Margin	(%)	11.82	10.56	10.10
PAT Margin	(%)	4.48	3.74	2.95
ROCE	(%)	19.62	19.00	16.37
Total Debt/Tangible Net Worth	Times	0.38	0.42	0.59
PBDIT/Interest	Times	4.57	4.51	3.35
Total Debt/PBDIT	Times	1.10	1.16	1.77
Gross Current Assets (Days)	Days	142	124	154

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>

- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-20.htm>
- Manufacturing Entities -<https://www.acuite.in/view-rating-criteria-4.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term loans	Not Applicable	Not Applicable	Not Applicable	0.96	ACUITE BB/ Stable
Proposed Long Term Facility	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB/ Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB/ Stable

Contacts

Analytical	Rating Desk
Aditya Gupta Head-Corporate and Infrastructure Sector Ratings Tel:022-67141191 aditya.gupta@acuite.in Grishma Muni Analyst - Rating Operations Tel: 022-49294075 grishma.muni@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

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